

NORTH DICKINSON COUNTY
SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with additional information)

For the Year Ended June 30, 2007

NORTH DICKINSON COUNTY SCHOOL DISTRICT

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
North Dickinson County School District
Felch, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dickinson County School District ("District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's Board of Education and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the North Dickinson County School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
November 5, 2007

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

North Dickinson County School District's Management Discussion and Analysis is intended to assist the reader to focus on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position including its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2007.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
(other than MD&A expanded)

As mentioned, GASB 34 requires the presentation of two basic types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The District-Wide Financial Statements provide a perspective of the District as a whole. These financial statements use the full accrual basis of accounting similar to private sector companies. There are two District-Wide Financial Statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds: current financial resources (short-term available resources) with capital assets and long-term obligations, regardless of their current availability.

Consistent with the full accrual basis method of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Fund Financial Statements

The Fund Financial Statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounts. Under this basis of accounting, revenues are recorded when received, except when they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, Capital Projects Funds and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants, and other intergovernmental revenues. The School Service Fund is comprised of Athletic Activities and Food Service. The Debt Retirement Fund is used to record the funding and payment of principal and interest on bonded debt. The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvements of major capital facilities. The Fiduciary Funds account for assets held by the District in a trustee capacity, or as an agent for various student groups and related activities.

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Financial Analysis of the District as a Whole

Summary of Net Assets

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets:		
Current assets	\$ 1,101,878	\$ 839,505
Net capital assets	<u>3,933,816</u>	<u>3,885,726</u>
Total assets	<u>5,035,694</u>	<u>4,725,231</u>
Liabilities:		
Current liabilities	669,003	615,583
Long term liabilities	<u>916,751</u>	<u>831,529</u>
Total liabilities	<u>1,585,754</u>	<u>1,447,112</u>
Net Assets:		
Invested in capital assets, net of related debt	2,841,518	2,859,427
Restricted for capital projects	232,398	37,955
Restricted for debt service	402,972	325,759
Unrestricted	<u>(26,948)</u>	<u>54,978</u>
Total net assets	<u>3,449,940</u>	<u>3,278,119</u>
Total Net Assets and Liabilities	<u>\$ 5,035,694</u>	<u>\$ 4,725,231</u>

The School District's net assets were \$3,449,940 at June 30, 2007, compared to \$3,278,119 at June 30, 2006. Total net assets can be separated into four categories: invested in capital assets, net of related debt, restricted assets for capital projects, restricted assets for debt service, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets less accumulated depreciation and related debt. The original cost of capital assets was \$7,360,757 at June 30, 2007, and \$7,199,458 at June 30, 2006. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated use life of the assets. Total accumulated depreciation was \$3,426,941 at June 30, 2007, and \$3,313,732 at June 30, 2006. Total debt related to capital assets was \$1,092,298 at June 30, 2007, and \$1,026,299 at June 30, 2006.

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Restricted assets for debt are funds, by their nature, restricted for use by laws or regulations by the State of Michigan. These funds totaled \$635,370 at June 30, 2007, compared to \$363,714 at June 30, 2006.

The remaining balance in unrestricted assets represents a deficit balance of \$(26,948) at June 30, 2007, and an excess balance of \$54,978 at June 30, 2006.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-Wide results of operations for the years ended June 30, 2007 and June 30, 2006 is as follows:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Program revenue		
Charges for services-local	\$ 114,084	\$ 106,290
Operating grants - federal state local	<u>246,508</u>	<u>217,354</u>
Total program revenue	<u>360,592</u>	<u>323,644</u>
General revenue		
Property taxes levied for general operations	1,256,102	1,243,554
Property taxes levied for debt service	277,340	278,545
State of Michigan aid, unrestricted	1,791,730	1,781,837
Other- federal, state and local	<u>80,480</u>	<u>68,405</u>
Total general revenue	<u>3,405,652</u>	<u>3,372,341</u>
Total revenue	<u>3,766,244</u>	<u>3,695,985</u>
Expenses		
Instruction	1,810,501	1,741,219
Support services	1,252,106	1,250,996
School service	277,758	238,112
Interest on long term debt	47,731	50,423
Depreciation (unallocated)	<u>206,327</u>	<u>217,246</u>
Total expenses	<u>3,594,423</u>	<u>3,497,996</u>
Increase in net assets	171,821	197,989
Net Assets July 1	<u>3,278,119</u>	<u>3,080,130</u>
Net Assets June 30	<u>\$ 3,449,940</u>	<u>\$ 3,278,119</u>

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The overall condition of the governmental funds has increased during June 30, 2007 and 2006. In the General Fund, the excess of revenues over expenditures totaled \$3,048 during fiscal year June 30, 2007 and \$23,499 during fiscal year June 30, 2006. The primary factor that contributed to this was the controlling of expenditures.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments are known. The most significant fund budgeted is the General Fund operations. The General Fund operating budget was amended three times during fiscal year 2007.

General Fund Operations

In the General Fund operations, the actual revenue for fiscal year June 30, 2007 was \$3,133,317. This is above the original budget of \$3,084,556 and below the final budget of \$3,143,977 - a variance of (0.34%). The actual expenditures of the general fund for fiscal year June 30, 2007 operations were \$3,062,168. This is above the original budget of \$2,945,389 and below the final budget of \$3,072,916 - a variance of 0.35%.

The variances between the actual revenues and the original and final revenue budgets are due primarily to the following.

- Chargebacks from the County for homestead exemptions.
-

The variances between the actual expenditures and the original and final expenditure budgets are due primarily to the following.

- Various budget items not expended

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

GOVERNMENTAL FUND EXPENDITURES

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	Total Expenditures June 30, 2007		Total Expenditures June 30, 2006	
		Percentage		Percentage
General Fund	\$ 3,062,168	81.52%	\$ 3,023,850	82.34%
Other Funds	694,244	18.48%	648,636	17.66%
Total Expenditures	<u>\$ 3,756,412</u>	<u>100.00%</u>	<u>\$ 3,672,486</u>	<u>100.00%</u>

TOTAL REVENUES

Below is a summary of the governmental fund revenues and their percentages as they relate to governmental funds.

	Total Revenue June 30, 2007		Total Revenue June 30, 2006	
		Percentage		Percentage
State of Michigan Aid unrestricted	\$ 1,791,730	44.49%	\$ 1,785,650	48.26%
Prop taxes general operation	1,256,102	31.19%	1,243,554	33.61%
Operating grants federal state local	246,508	6.12%	217,354	5.87%
Prop taxes debt retirement	277,340	6.89%	278,545	7.53%
Charges for services - local	114,084	2.83%	106,290	2.87%
Other federal, state and local	341,096	8.47%	68,405	1.85%
Total Revenues	<u>\$ 4,026,860</u>	<u>100.00%</u>	<u>\$ 3,699,798</u>	<u>100.00%</u>

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Unrestricted State Aid

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State revenues to the District have decreased as a result of decreased enrollment from the previous three years. State aid membership was 387.97 for fiscal year June 30, 2007 and 395.71 for fiscal year June 30, 2006.

Property Taxes

The District levies 18.0 mills of property taxes on all Non-Homestead property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value.

The District levied 3.0 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations.

The District levied 2.0 mills of property taxes on all classes of property located within the District for sinking fund purchases of the District.

Operating Grants Federal, State, and Local

The primary sources are the Federal Title One Program, the State funded At Risk Program, and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title One and At Risk Programs assist students who are deemed to be at risk in the instruction process. For the 2006-2007 fiscal year, the District has utilized \$75,970 and \$55,985 for the Title One and State At Risk Programs. For fiscal year 2007 the State, under the Headlee amendment, is obligated to remit to the District \$90,821.

ENROLLMENT

The District's 2006-2007 fall enrollment totaled 384. This is a increase of 3 students from the previous year. North Dickinson County School District is located in Michigan's Upper Peninsula. The area is currently experiencing an economic downturn. Some employers in the area have closed their doors, with others reducing their labor force. As a result of this, families have moved out of the area. In addition the county is experiencing a declining birth rate from previous year.

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Enrollment changes over the last ten years can be illustrated as follows:

<u>Fiscal Year</u>	<u>Student Enrollment</u>	<u>(Decrease) in Student Enrollment</u>
2007	384	3
2006	381	(9)
2005	390	(18)
2004	408	0
2003	408	(2)
2002	410	(15)
2001	425	(28)
2000	453	(11)
1999	464	(18)
1998	482	

Student enrollment is important to the financial health of the District because state funding is based on a per pupil formula.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2007, the District had \$7,360,757 invested in land and building, furniture and equipment, vehicles and buses compared to \$7,199,458 at June 30, 2006. Of this amount, \$3,426,941 and \$3,313,732 has been depreciated at June 30, 2007 and June 30, 2006 respectively. Net book value totaled \$3,933,816 at June 30, 2007, and \$3,885,726 at June 30, 2006. Due to budget constraints related to declining enrollment and the State of Michigan financial status, the ability to maintain these buildings is becoming increasingly difficult. The District maintains a \$1,000 threshold for capitalization of assets.

North Dickinson County School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2007

Outstanding Debt at Year End

As of June 30, 2007 the District had \$1,012,065 in bonds outstanding, compared to \$987,065 at June 30, 2006. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional bond debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the North Dickinson County School District. For additional detailed financial information contact:

Mike Roell
Business Manager
North Dickinson County School District
W6588 M-69
Felch, MI 49831
Office Telephone (906) 542-9281
Fax Telephone (906) 542-6950

NORTH DICKINSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	Governmental Activities
ASSETS:	
Current assets:	
Cash and equivalents	\$ 376,149
Investments	428,889
Inventory	2,455
Due from other governments	294,385
Total current assets	1,101,878
Noncurrent assets:	
Capital assets	7,360,757
Accumulated depreciation	(3,426,941)
Total noncurrent assets	3,933,816
TOTAL ASSETS	5,035,694
LIABILITIES:	
Current liabilities:	
Accounts payable	29,485
Accrued interest	13,557
Accrued expenses	116,048
Note payable - state	250,000
Notes payable	39,822
Vested sick pay	1,450
Early retirement incentive	22,084
Bonds payable	185,000
Total current liabilities	657,446
Noncurrent liabilities:	
Notes payable	40,411
Vested sick pay	14,582
Early retirement incentive	46,250
Bonds payable	827,065
Total noncurrent liabilities	928,308
TOTAL LIABILITIES	1,585,754
NET ASSETS:	
Invested in capital assets, net of related debt	2,841,518
Restricted for capital projects	232,398
Restricted for debt service	402,972
Unrestricted	(26,948)
TOTAL NET ASSETS	\$ 3,449,940

The accompanying notes to the financial statements are an integral part of this statement.





**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

NORTH DICKINSON COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
				Primary Government
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT:				
Governmental Activities:				
Instruction	\$ 1,810,501	\$ -	\$ 162,150	\$ -
Support	1,252,106	557	-	-
School service	277,758	113,527	84,358	-
Depreciation	206,327	-	-	-
Debt interest, fees and expenses	47,731	-	-	-
TOTAL PRIMARY GOVERNMENT	3,594,423	114,084	246,508	(3,233,831)
General revenues:				
Property taxes				\$ 1,533,442
State revenue sharing				1,791,730
Unrestricted investment earnings				38,879
Other				41,601
Total general revenues and transfers				3,405,652
Changes in net assets				171,821
Net assets, beginning of year				3,278,119
Net assets, end of year				\$ 3,449,940

The accompanying notes to the financial statements are an integral part of this statement.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007

	General	Debt Service	Sinking Fund #255211	Nonmajor Governmental Funds
ASSETS:				
Cash and equivalents	\$ 139,866	\$ -	\$232,398	\$ 3,885
Investments	25,917	402,972	-	-
Inventory	-	-	-	2,455
Due from other funds	2,455	-	-	-
Due from other governments	294,385	-	-	-
TOTAL ASSETS	\$ 462,623	\$ 402,972	\$232,398	\$ 6,340
LIABILITIES:				
Accounts payable	\$ 29,485	\$ -	\$ -	\$ -
Accrued expenses	116,048	-	-	-
Due to other funds	-	-	-	2,455
Notes payable	250,000	-	-	-
TOTAL LIABILITIES	395,533	-	-	2,455
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	402,972	232,398	-
Unreserved				
Undesignated	67,090	-	-	3,885
TOTAL FUND BALANCE AND OTHER CREDITS	67,090	402,972	232,398	3,885
TOTAL LIABILITIES, FUND BALANCE AND OTHER	\$ 462,623	\$ 402,972	\$232,398	\$ 6,340



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

Total
Governmental
Funds

\$ 376,149
428,889
2,455
2,455
294,385

\$ 1,104,333

\$ 29,485
116,048
2,455
250,000

397,988

635,370

70,975

706,345

\$ 1,104,333

The accompanying notes to the financial statements are an integral part of this statement.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

For the Year Ended June 30, 2007

Total fund balances for governmental funds \$ 706,345

Total net assets reported for governmental activities in the statement
of net assets is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. Those assets
consist of:

Land and improvements	\$ 858,555
Equipment	1,065,202
Buildings and improvements	<u>5,437,000</u>

Total capital assets	7,360,757
Accumulated depreciation	<u>(3,426,941)</u>

Net capital assets 3,933,816

Long-term liabilities applicable to the District's governmental
activities are not due and payable in the current period and accordingly
are not reported as fund liabilities. Interest on long-term debt is not
accrued in governmental funds, but rather is recognized as an
expenditure when due. All liabilities, both current and long-term, are
reported in the statement of net assets.

Accrued interest on long-term debt	\$ (13,557)
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Bonds payable	(1,012,065)
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Compensated absences – vested	(16,032)
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Early retirement incentive	(68,334)
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Notes payable	<u>(80,233)</u>	(1,190,221)
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Total net assets of governmental activities \$3,449,940



NORTH DICKINSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	General	Debt Service	Sinking Fund #255211	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Local sources	\$ 1,119,168	\$ 299,428	\$ 188,714	\$ 113,542	\$ 1,720,852
State sources	1,784,229	-	-	7,501	1,791,730
Federal sources	126,726	-	-	84,358	211,084
TOTAL REVENUES	3,030,123	299,428	188,714	205,401	3,723,666
EXPENDITURES:					
Instruction	1,720,606	-	-	-	1,720,606
Supporting services	1,307,125	-	194,271	-	1,501,396
Debt service	-	222,215	-	-	222,215
School service	-	-	-	277,758	277,758
TOTAL EXPENDITURES	3,027,731	222,215	194,271	277,758	3,721,975
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,392	77,213	(5,557)	(72,357)	1,691
OTHER FINANCING SOURCES (USES):					
Other sources	67,770	-	200,000	-	267,770
Payments received from other governmental units	35,424	-	-	-	35,424
Transfers in	-	-	-	68,101	68,101
Other uses	(24,744)	-	-	-	(24,744)
Payments to other governmental units	(9,693)	-	-	-	(9,693)
Transfers out	(68,101)	-	-	-	(68,101)
TOTAL OTHER FINANCING SOURCES (USES)	656	-	200,000	68,101	268,757
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	3,048	77,213	194,443	(4,256)	270,448
FUND BALANCE, JULY 1	64,042	325,759	37,955	8,141	435,897
FUND BALANCE, JUNE 30	\$ 67,090	\$ 402,972	\$ 232,398	\$ 3,885	\$ 706,345

The accompanying notes to the financial statements are an integral part of this statement.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Net changes in fund balances – total governmental funds	\$270,448
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$254,417 exceeded depreciation expense \$(206,327).	48,090
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Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

New debt:		
Bond payable	(200,000)	
Note payable	(60,616)	(260,616)
Principal repayments:		
Bonds	175,000	
Notes payable	<u>19,617</u>	<u>194,617</u>

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Early retirement obligation	\$(68,334)	
Compensated absences	(11,868)	
Accrued interest	<u>(516)</u>	<u>(80,718)</u>
Changes in net assets of governmental activities		<u>\$171,821</u>



NORTH DICKINSON COUNTY SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2007

	Agency Fund Student Activity
ASSETS:	
Cash and equivalents	\$ 41,206
TOTAL ASSETS	41,206
LIABILITIES:	
Due to student groups	41,206
TOTAL LIABILITIES	41,206
NET ASSETS:	\$ -

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the North Dickinson County School District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Some of the significant changes in the statement include the following:

An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all the District's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statement.

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement #14, *The Financial Reporting Entity* and as amended by GASB Statement #39.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it has been determined that there are no component units of the North Dickinson County School District.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities except for fiduciary activities.

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities,

C. Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types in two broad fund categories as follows:



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds - Governmental funds are used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities, except for those accounted for in fiduciary funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial transactions of the District, except those required to be accounted for in other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Fund to account for the North Dickinson County School District's activity.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Fiduciary Funds - Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Agency Fund - The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity (primarily student activities).

Account Groups - Account groups are used to establish accounting control and accountability for the District's general fixed assets and long-term obligations. The following are the District's account groups:

General Fixed Assets - This group of accounts was established to account for all general fixed assets of the District.

General Long-Term Obligations - This group of accounts has been established to account for unmatured general long-term obligations and certain other liabilities of the District not expected to be liquidated through the use of available expendable financial resources.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. The governmental-wide statement uses the economic resources measurement focus.

Accrual

Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after the year end. A one year period is used for revenue recognition for all other governmental fund revenues. Those revenues prone to accrual are property taxes, federal aid, interest-revenue, and charges for services.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

State Foundation Revenue - For the fiscal year ended June 30, 2007, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2006.

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

E. Cash and Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

F. Interfund Balances and Transfers

The current portion of lending/borrowing arrangements between funds are identified as "due to/from other funds". The non-current portion of outstanding balances between funds are reported as "advances to/from other funds". Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources.

Transfers represent a flow of assets without equivalent flows of assets in return or a requirement for repayment.

G. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

The District has adopted a capitalization policy of \$1,000.

I. Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

J. Compensated Absences

Amounts representing accumulated vacation and personal leave expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the government fund that will pay it.

K. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized as revenue when levied to the extent they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Taxes (Continued)

The District, along with certain other governmental units, is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund Mills</u>	
General Fund - Non-Homestead	18.0
Debt Retirement	3.0
Sinking Fund	2.0

L. Unemployment Insurance

The District reimburses the Michigan Employment Security Commission (MESC) for the actual amount of unemployment benefits disbursed by the MESC on behalf of the District. Billings received for amounts paid by the MESC through June 30 are accrued.

M. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". Designated fund balances represents amounts set aside by the governing body for specific purposes such as capital improvements.

N. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1st. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Budgets (Continued)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1st, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balances - budget and actual (GAAP basis) - all governmental fund types.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

The budget for the year ended June 30, 2007 was adopted on June 16, 2006 and formally amended on April 16, 2007 and July 9, 2007.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

NOTE 2 - CASH AND INVESTMENTS

Cash and Equivalents

The District's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Money market accounts	\$308,929
Checking accounts	<u>67,220</u>
TOTAL	<u>\$376,149</u>



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Cash and Equivalents (Continued)

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2007, the District had cash and equivalents which were uninsured and uncollateralized in the amount of \$275,531.

Investments

The District's investments, as reported in the Statement of Net Assets, consisted of the following:

Michigan Liquid Asset Fund (MILAF)

\$428,889

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Investments are recorded at fair market value, which is based on quoted market prices.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are with the Michigan Liquid Asset Fund (MILAF) which consists of different funds including mutual funds with a high degree of liquidity, thus the District's investments are not subject to interest rate risk.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables for the year ended June 30, 2007 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ <u>2,455</u>	Nonmajor Governmental	\$ <u>2,455</u>

Interfund transfers for the year ended June 30, 2007 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Nonmajor Governmental	\$ <u>68,101</u>	General	\$ <u>68,101</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2007 follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Land and improvements	\$ 803,625	\$ 54,930	\$ -	\$ 858,555
Buildings and improvements	5,299,333	137,667	-	5,437,000
Equipment	<u>1,096,500</u>	<u>61,820</u>	<u>(93,118)</u>	<u>1,065,202</u>
TOTALS	7,199,458	\$ <u>254,417</u>	\$ <u>(93,118)</u>	7,360,757
Accumulated Depreciation	<u>(3,313,732)</u>	\$ <u>(206,327)</u>	\$ <u>93,118</u>	<u>(3,426,941)</u>
Net Fixed Assets	\$ <u>3,885,726</u>			\$ <u>3,933,816</u>

Depreciation for the year ended June 30, 2007, amounted to \$206,327. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 5 – LONG-TERM OBLIGATIONS

During the year ended June 30, 2007, the following changes occurred in long-term obligations:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
General Obligation:					
Bonds	\$ 987,065	\$ 200,000	\$(175,000)	\$ 1,012,065	\$ 185,000
Notes Payable	39,234	60,616	(19,617)	80,233	39,822
Employee Benefits:					
Teachers Early Retirement	-	68,334	-	68,334	22,084
Sick Pay	4,164	14,842	(2,974)	16,032	1,450
TOTALS	\$ 1,030,463	\$ 343,792	\$(197,591)	\$ 1,176,664	\$ 248,356

NOTE 6 - BONDS AND NOTES PAYABLE

Long-term obligations at June 30, 2007 is comprised of the following amounts:

1. 1999 School Building Bonds due in annual installments of \$92,118 to \$225,015 through May 1, 2011 with interest at 4.75% to 5.0% \$ 780,000
2. 1998 Durant Bonds due in annual installments of \$3,813 to \$17,996 through May 15, 2013, with interest at 4.6% 32,065

The annual State of Michigan appropriation is the only revenue source for making the annual payments on the Durant Bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

3. 2007 School Building and Site Bonds due June 12, 2022 200,000
4. Note payable for bus \$19,617 annually with interest at 4.05% 19,617
5. Note payable for bus \$20,205 annually with interest at 4.69% 60,616
6. Vested accumulated sick pay 16,032
7. Early retirement obligation 68,334
- TOTAL LONG-TERM OBLIGATIONS** **\$1,176,664**



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2007 are as follows:

Year Ended June 30	Bond Issues		Notes Payable		Sick Leave	ERI	Total
	Principal	Interest	Principal	Interest			
2008	\$ 185,000	\$38,816	\$39,822	\$2,766	\$ 1,450	\$22,084	\$ 289,938
2009	213,468	36,904	20,205	1,421	2,784	18,333	293,115
2010	203,166	20,647	20,206	474	-	17,500	261,993
2011	203,316	10,497	-	-	-	9,167	222,980
2012	3,475	339	-	-	-	1,250	5,064
2013-2017	3,640	173	-	-	11,798	-	15,611
2018-2022	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
TOTALS	<u>1,012,065</u>	<u>107,376</u>	<u>80,233</u>	<u>4,661</u>	<u>\$16,032</u>	<u>\$68,334</u>	<u>\$ 1,288,701</u>

Interest expense for the year ended June 30, 2007 was \$61,078.

NOTE 7 - FUND BALANCES

Portions of fund balances are reserved or designated and not available for general purposes other than fund usage as follows:

	<u>Reserved Designated</u>
Capital Project	\$232,398
Debt Service	<u>402,972</u>
TOTAL	<u>\$635,370</u>

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy – Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.



NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

The pension benefit rate totals 16.34 percent for the period July 1, 2006 through September 30, 2006 and 17.74 percent for October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006, and 2005 were \$259,913, \$268,040, and \$238,714.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participated in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 10 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NORTH DICKINSON COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2007

(Continued)

NOTE 11 – SIGNIFICANT ESTIMATES

Included in footnote 8 is a summary of the employee retirement plan provisions and actuarial assumptions. The actuarial assumptions are very critical to the computation of actuarial determined liabilities of the plan. If the assumptions differ from actual results annual contributions to the defined benefit plan can substantially change.

NOTE 12 – SINKING FUND COMPLIANCE

The Capital Projects Fund includes activities funded with sinking fund tax dollars issued after May 1, 1994. For this capital project, the District has complied with the applicable provisions of §1351a of the Revised School Code.

NOTE 13 – NOTES PAYABLE

State aid anticipation note due to the First National Bank of Crystal Falls in the amount of \$250,000. The note is secured by State Aid payments and is subject to an interest rate of 3.88% and matures May 2, 2008.

During the year ended June 30, 2007, the following changes occurred in notes payable:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance</u> <u>June 30, 2007</u>
State Aid Anticipation Note	<u>\$300,000</u>	<u>\$250,000</u>	<u>\$(300,000)</u>	<u>\$250,000</u>

NOTE 14 – COMPENSATED ABSENCES

At June 30, 2007 accumulated non-vested sick time amounted to \$298,593. Non-vested, unused sick time does not vest and so is not included in the general long-term debt account group.

NOTE 15 – COMMITMENTS / CONTINGENCIES

At June 30, 2007 the District had entered into construction contracts with two contractors for remodeling projects. Total contract commitments totaled \$94,045 at June 30, 2007, of which none had been paid.



REQUIRED SUPPLEMENTAL INFORMATION

NORTH DICKINSON COUNTY SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis) (Note 1)
	Original	Final	
REVENUES:			
Local sources	\$ 1,204,375	\$ 1,118,297	\$ 1,119,168
State sources	1,654,195	1,795,761	1,784,229
Federal sources	119,222	126,725	126,726
TOTAL REVENUES	2,977,792	3,040,783	3,030,123
EXPENDITURES:			
Instruction	1,673,344	1,727,701	1,720,606
Supporting services	1,240,495	1,310,778	1,307,125
TOTAL EXPENDITURES	2,913,839	3,038,479	3,027,731
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	63,953	2,304	2,392
OTHER FINANCING SOURCES (USES):			
Other sources	66,764	67,770	67,770
Payments received from other governmental units	40,000	35,424	35,424
Other uses	(25,210)	(24,744)	(24,744)
Payments to other governmental units	(6,340)	(9,693)	(9,693)
Transfers out	(79,907)	(68,003)	(68,101)
TOTAL OTHER FINANCING SOURCES (USES)	(4,693)	754	656
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	59,260	3,058	3,048
FUND BALANCE, JULY 1	64,042	64,042	64,042
FUND BALANCE, JUNE 30	\$ 123,302	\$ 67,100	\$ 67,090

The accompanying notes to the financial statements are an integral part of this statement.



OTHER SUPPLEMENTAL INFORMATION

NORTH DICKINSON COUNTY SCHOOL DISTRICT

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2007

	Food Service	Athletics	Total Nonmajor Governmental Funds
ASSETS:			
Cash and equivalents	\$ -	\$ 3,885	\$ 3,885
Inventory	2,455	-	2,455
TOTAL ASSETS	\$ 2,455	\$ 3,885	\$ 6,340
LIABILITIES:			
Due to other funds	\$ 2,455	\$ -	\$ 2,455
TOTAL LIABILITIES	2,455	-	2,455
FUND BALANCE AND OTHER CREDITS:			
Fund balances:			
Unreserved-Undesignated	-	3,885	3,885
TOTAL FUND BALANCE AND OTHER CREDITS	-	3,885	3,885
TOTAL LIABILITIES, FUND BALANCE AND OTHER	\$ 2,455	\$ 3,885	\$ 6,340



NORTH DICKINSON COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2007

	Food Service	Athletics	Total Nonmajor Governmental Funds
REVENUES:			
Local sources	\$69,381	\$44,161	\$ 113,542
State sources	7,501	-	7,501
Federal sources	84,358	-	84,358
 TOTAL REVENUES	 161,240	 44,161	 205,401
EXPENDITURES:			
School service	155,989	121,769	277,758
 TOTAL EXPENDITURES	 155,989	 121,769	 277,758
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,251	(77,608)	(72,357)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	77,608	77,608
Transfers out	(9,507)	-	(9,507)
 TOTAL OTHER FINANCING SOURCES (USES)	 (9,507)	 77,608	 68,101
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(4,256)	-	(4,256)
 FUND BALANCE, JULY 1	 4,256	 3,885	 8,141
 FUND BALANCE, JUNE 30	 \$ -	 \$ 3,885	 \$ 3,885

The accompanying notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
North Dickinson County School District
Felch, Michigan

We have audited the financial statements of North Dickinson County School District as of and for the year ended June 30, 2007, and have issued our report thereon dated November 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Dickinson County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dickinson County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Dickinson County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dickinson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS
(Continued)**

This report is intended solely for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

November 5, 2007